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UNCLAS SECTION 01 OF 03 THE HAGUE 000840

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SUBJECT: NETHERLANDS: FORTIS BANK NATIONALIZED AS DUTCH
FINANCIAL MARKETS WEATHER THE STORM

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THE HAGUE 00000840 001.2 OF 003

¶1. (U) Summary: The Dutch government announced October 3 that it will buy all of Fortis, Dutch operations for EUR 16.8 billion, including its Dutch insurance activities and the Dutch operations of ABN AMRO. The Dutch government decided to effectively nationalize Fortis, in-country activities after it became clear last week that the original EUR 11.2 billion bail-out would not be sufficient to quell investor fears. The move supersedes the September 29 deal by the governments of the Netherlands, Belgium, and Luxembourg to invest EUR 11.2 billion to save Fortis. Dutch public reaction has been generally positive, with many praising Prime Minister Balkenende,s government) and Finance Minister Bos in particular) for taking unprecedented but necessary action to regain control of ABN AMRO and prevent a loss of confidence elsewhere in the financial system. The move highlights the national, rather than EU-wide, approaches that European governments have favored thus far as the U.S. finanial crisis spills over the Atlantic,s eastern shores. End summary.

NATIONALIZATION OF FORTIS

¶2. (U) The Dutch government announced October 3 that it will buy all of Fortis, Dutch operations for EUR 16.8 billion, including its Dutch insurance activities and the Dutch operations of ABN AMRO. The move supersedes the September 29 deal by the governments of the Netherlands, Belgium, and Luxembourg to invest EUR 11.2 billion in the troubled Belgian-Dutch banking and insurance giant (reftel). Forced to find a buyer for Fortis, remaining assets, the governments of Belgium and Luxembourg concluded a deal over the weekend with BNP Paribas in which the French bank will take control of Fortis, operations in those countries. BNP Paribas will acquire 75 percent of Fortis, Belgian operations and 66 percent of its Luxembourg operations, with the respective governments retaining control of the remaining Fortis assets in each country.

¶3. (U) The Dutch government decided to effectively nationalize Fortis, in-country activities after it became clear last week that the original EUR 11.2 billion bail-out would not be sufficient to quell investor fears. The bank continued to face severe liquidity shortages even after the announcement, as depositors withdrew their savings and banks refused to lend to the troubled institution. Fortis, share price endured a wild ride on Euronext exchanges last week, finally closing October 3 down 0.79 percent at EUR 5.41 before its shares were suspended from trading October 6. By

comparison, Fortis shares were worth EUR 36 in October 2007 when it joined with Royal Bank of Scotland (RBS) and Banco Santander of Spain in a EUR 71 billion hostile takeover of Dutch bank ABN AMRO; since then, the stock has lost nearly 70 percent of its value. Anxious to calm investors, fears and shore up confidence across the banking sector, the Dutch Ministry of Finance and Central Bank stepped in October 3 to purchase all of Fortis, Dutch operations. The government will borrow from capital markets to raise the EUR 16.8 billion needed for the transaction. Regarding an exit strategy, Finance Minister Wouter Bos gave assurances October 6 that the Fortis holdings, including ABN AMRO, would be re-privatized and sold at a later date once market conditions Qre-privatized and sold at a later date once market conditions had improved. According to ministry sources, Bos is looking at late 2009 as a likely timeframe for the sale.

¶4. (SBU) The Dutch government was able to conclude this latest deal because it had not yet paid the EUR 4.0 billion that it had committed to invest in Fortis as part of the original EUR 11.2 billion tri-government bailout. European media reported that Belgium and Luxembourg were angered by the Netherlands, sudden change of plans, as it forced them to scrap the bailout and scramble to find a buyer for Fortis, remaining operations. Dutch Ministry of Finance officials told us that the media was exaggerating, noting Finance Minister Wouter Bos, regular communication with his Belgian counterpart Didier Reynders in the run-up to the October 3 announcement of the new Dutch deal.

¶5. (SBU) The Dutch nationalization and subsequent BNP Paribas deal have important implications for the Benelux banking sector. In its October 2007 takeover of ABN AMRO with RBS and Banco Santander, Fortis acquired ABN AMRO,s retail and private banking operations in the Netherlands for EUR 24 billion amid a national furor that a cornerstone of the Dutch

financial sector had been acquired by a foreign consortium. With the Dutch government,s takeover, ABN AMRO could eventually reemerge as an independent bank, or a buyer such as ING (the Dutch banking and insurance leader that had expressed interest in purchasing ABN AMRO as Fortis, condition worsened in recent months) could step up with an offer. Either of these scenarios would see ABN AMRO returned to its Dutch roots) a development to which the Dutch public would react positively and that could help bolster the ruling coalition government,s dismal approval ratings. Meanwhile, BNP Paribas, takeover of Fortis, remaining operations makes it the largest bank in the eurozone by deposits, while the governments of Belgium and Luxembourg are now shareholders in the French bank.

DUTCH PUBLIC SUPPORTIVE

¶6. (U) Prime Minister Balkenende and Finance Minister Bos spent the past few days reassuring national and international investors that the government had purchased the healthiest parts of Fortis, that no other Dutch banks are threatened with collapse, and that the Dutch financial sector remains solid and highly competitive. By and large, Dutch media and public opinion support these assertions. Although the AEX index (the Netherlands, leading stock market index) was off by 6.32% at close of business on October 6, many business leaders and members of the Dutch parliament praised Balkenende,s government) and Bos in particular) for taking unprecedented but necessary action to regain control of ABN AMRO and prevent a loss of confidence elsewhere in the financial system.

A NATIONAL, NOT EU, APPROACH

¶7. (U) The nationalization of Fortis, Dutch operations highlights the national, rather than EU-wide, approaches that European governments have favored thus far as the U.S. financial crisis spills over the Atlantic,s eastern shores.

An October 4 meeting in Paris of the leaders of France, Germany, the UK, and Italy produced consensus that European governments needed to act in a coordinated manner, and the October 6-7 meeting in Luxembourg of EU Finance Ministers is expected to do the same. However, no support has emerged for the idea of a centralized EU-wide emergency fund upon which failing banks could draw. Conflicting reports emerged last week about whether this was originally a Dutch idea, with some media reporting that Prime Minister Balkenende had proposed to French President Sarkozy during their October 2 meeting that EU Member States set aside 3 percent of GDP, for a total of EUR 380 billion, for financial emergencies. Balkenende,s government subsequently sought to quell the rumors, explaining that the Netherlands had never proposed an EU emergency fund, but simply urged a coordinated EU approach to the crisis. Germany in particular has opposed the concept of an EU-wide fund amid concerns that it would be expected to contribute the lion,s share only to bail out other European banks in which German taxpayers had little or no investments. Decisions in recent days by Ireland, Germany, and Denmark to guarantee the private deposits of their citizens) in addition to the Netherlands, nationalization of Fortis, Dutch operations) highlight the EU Member States, continuing preference for EU coordination but national action.

COMMENT

¶8. (SBU) Comment: The nationalization of Fortis, Dutch
Q8. (SBU) Comment: The nationalization of Fortis, Dutch
operations, although unprecedented in a country that prides itself on the protection of free market principles, has been well received here. Few question the necessity of government intervention in Fortis to shore up investor confidence and prevent possible spillover into other parts of the Dutch banking sector. Meanwhile, leading Dutch institutions such as ING and Rabobank remain confident in their balance sheets, proudly pointing to their limited exposure to U.S.-backed mortgage assets. Provided the effects of the global financial crisis in the Netherlands can be mostly contained to Fortis, Prime Minister Balkenende,s government stands to gain from its recent market interventions. The ruling coalition government in general) and Balkenende and Finance Minister Bos in particular) have long suffered in opinion polls and have been seen as ineffectual in their efforts to push through promised domestic reforms. Most view the Fortis nationalization as a refreshingly decisive and wise step by the Balkenende government. Importantly, the move also returns ABN AMRO to Dutch ownership) a source of pride for

many Dutch citizens who resented the foreign takeover of a leading Dutch institution last year. End comment.
Culbertson